

## Message Text

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EUR/EE:CSCHMIDT

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FM SECSTATE WASHDC

TO AMEMBASSY BUDAPEST

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E.O. 11652: N/A

TAGS: ABLD, AFSP, PFOR, HU

SUBJECT: PROPERTY NEGOTIATIONS

REF: BUDAPEST'S 3841

1. DEPARTMENT APPRECIATES THE GOH'S OFFER TO DOUBLE THE PRICES REQUESTED BY THE USG IN 1969. THIS IS A GOOD START, BUT WE ARE NOT, AT THIS POINT, READY TO SIGN OFF THERE. WE ARE STILL UNWILLING TO SIGN AN AGREEMENT THAT COMPENSATES THE USG FOR ITS EXCELLENT PROPERTIES AT LOW, LOCAL, HUNGARIAN RATES WHILE GOH RENTS PROPERTIES AND SELLS ITS SERVICES TO US AT INTERNATIONAL PRICES. (THESE POINTS WERE DISCUSSED WITH HUNGARIAN TEAM, ESP. ON JULY 15. SEE MINUTES OF MEETING AND BUDAPEST'S 2356.) ALTHOUGH THE DSD OFFER DOUBLES 1969 RATES, TO NEW LEVEL OF DOLLARS 2,835,000, THIS IS STILL NOWHERE NEAR THE PRESENT INTERNATIONAL MARKET VALUE. DEPARTMENT BELIEVES THE DOLLARS

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9 MILLION EVALUATION PLACED BY THE TEAM ON T;E NINE PROPERTIES WE ARE WILLING TO TRANSFER TO GOH IS NOT UNREASONABLE ON INTERNATIONAL MARKETS.

2. THE ABOVE DSD OFFER DOES NOT INCLUDE COMPENSATION FOR ROOSEVELT TER. IF, IN ONE WAY OR ANOTHER, THE GOH CAN DOUBLE ITS PRESENT OFFER - TO THE OVER DOLS 5 MILLION

LEVEL - WE ARE THEN NOT ONLY IN THE SAME BALLPARK, BUT ALSO PLAYING THE SAME GAME AT A TIE LEVEL. THE GOH CAN FURTHER INCREASE ITS OFFERS ON THE SEVEN LISTED PROPERTIES; IT CAN OFFER A SUBSTANTIAL ADDITIONAL SUM FOR THE ROOSEVELT TER, OR A COMBINATION. THE JUSTIFICATION FOR AN INCREASE IS UP TO THEM. WE DO NOT ENVISION SENDING A TEAM TO BUDAPEST WITH AUTHORITY TO SIGN OFF AT ANY FIGURE BELOW DOLS 5 MILLION. ANY PROPOSED SETTLEMENT (AFTER NEGOTIATIONS) WHICH IS LESS THAN DOLS 5 MILLION WOULD REQUIRE A GOOD DEAL OF CABLED DISCUSSION AND JUSTIFICATION BEFORE THE DEPARTMENT WOULD AUTHORIZE SIGNATURE OF AN AGREEMENT AT THAT LOWER LEVEL. WE ARE STRONGLY DISINCLINED TO TRANSFER FOR MUCH LESS THAN DOLS 5 MILLION. DOES EMBASSY BELIEVE WE CAN REACH THIS FIGURE? IS THERE ANY WAY TO TEST THESE WATERS BEFORE WASHINGTON MEMBERS OF TEAM LEAVE FOR BUDAPEST?

3. THIS MAY BE DIFFICULT FOR DSD OR GOH TO SWALLOW. EMBASSY MAY WISH TO NOTE THAT CERTAIN RECENT USG DECISIONS HAVE NOT BEEN EASY, EITHER. WE TRUST THE GOH CAN FIND SOME WAY TO GET THE COMPENSATION THEY OFFER UP TO AN ACCEPTABLE INTERNATIONAL MARKET VALUE. THIS TRANSACTION (AND ALL OUR OTHER REAL PROPERTY DEALINGS WITH DSD) IS BEING HANDLED BY INTERNATIONAL AGREEMENT AT INTERNATIONAL PRICE LEVELS. WE DO NOT PLAN TO MAKE AN LIMITED OFFICIAL USE

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EXCEPTION IN THIS CASE AND SETTLE OFF AT HUNGARIAN PRICES.

4. SINCE DSD HAS ASSURED US THAT IT IS NOT POSSIBLE TO SIGN ONE AGREEMENT WHICH PROVIDES BOTH FOR GOH PURCHASE OF OUR PROPERTIES AND FOR GOH PROVISION OF SERVICES (ESPECIALLY CONSTRUCTION) TO EMBASSY, THE TRANSACTION WOULD HAVE TO PROVIDE FOR PAYMENT IN FORINTS, USEABLE AT USG DISCRETION (NOT UNDER GOH CONTROL) FOR USG EXPENSES OF ALL KINDS IN HUNGARY. SUCH SERVICES AS DEPARTMENT, EMBASSY AND DSD AGREE ON CAN BE FUNDED FROM THIS ACCOUNT, BUT NEGOTIATED SEPARATE FROM THE LAND TRANSFER MATTER.

5. SINCE A NEW OFFICE BUILDING WAS A MAJOR ITEM OF DISCUSSION DURING JULY SESSIONS, WE WOULD LIKE TO GET EMBASSY VIEWS ON THAT IN ADVANCE. OUR INCLINATION IS TO DROP FURTHER CONSIDERATION OF A NEW CHANCERY, BECAUSE (1) THE TOTAL COMPENSATION RECEIVED IS NOT LIKELY TO COVER THIS ITEM, IN ADDITION TO OTHER EMBASSY REQUIREMENTS, (2) THE PROCESS OF DESIGN AND CONSTRUCTION OF A MAJOR BUILDING IN BUDAPEST WOULD BE FRUSTRATING, ENDLESS AND COSTLY, AND (3) THE PRESENT OB IS BASICALLY ADEQUATE, WITH THE

ADDITION OF IMPROVEMENTS WHICH CAN BE ACHIEVED WITHOUT UNDUE DELAY AND COMPLETE DISRUPTION. PLEASE GIVE US YOUR VIEWS ON THIS SUBJECT.

6. AS FOR TIMING OF VISIT, WE SUGGEST DEPARTMENTAL TEAM JOIN THE AMBASSADOR FOR NEGOTIATIONS WITH DSD EARLY NEXT MONTH. EITHER THE WEEK OF DECEMBER 5 OR 12 WOULD PROBABLY BE FEASIBLE; OTHERWISE WE SUGGEST MID-JANUARY. PLEASE COMMENT.

7. YOUR 3973 RECEIVED AFTER ABOVE CLEARED.

(A) RE PARA 4 YOUR 3973, NOTE THAT AT LAST SESSION OF LIMITED OFFICIAL USE

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JULY NEGOTIATIONS, DSD STATED CLEARLY, SEVERAL TIMES, IN ANSWER TO SEVERAL DIFFERENT APPROACHES, THAT THE LAND TRANSFER TO GOH AND THE AGREEMENTS ON SERVICES AND PROPERTIES WE WANT CANNOT BE COVERED IN ONE PACKAGE. THIS IS ONE OF SEVERAL REASONS WHY DEPARTMENT INSISTS ON SUBSTANTIALLY HIGHER PAYMENT FOR ITS PROPERTIES THAN DSD HAS YET OFFERED. IT ALSO IS A BASIS FOR OUR DOUBT THAT AGREEMENT CAN BE REACHED, IN NEXT ROUND OF NEGOTIATIONS, ON PROPERTIES AND SERVICES WE WANT. ANOTHER REASON FOR DOUBT ON THIS MATTER IS THAT IT WILL BE IMPOSSIBLE, BY DECEMBER OR JANUARY, TO PRECISELY DEFINE OUR ACQUISITION AND PROPERTY IMPROVEMENT REQUIREMENTS AND COST THEM OUT IN A MANNER TO WHICH THE DSD COULD AGREE TO COMMIT ITSELF.

(B) WE GENERALLY CONCUR WITH PROPOSALS TO RENOVATE CHANCERY, BUT NEED CAREFUL ARCHITECTURAL STUDY BEFORE ANY SPECIFIC PLAN APPROVED. WE HAVE SERIOUS DOUBTS THAT BUDAPEST ZONING AND DESIGN RESTRICTIONS AND EMBASSY'S PROPOSALS FOR ROSENBERG HAZASPAR SITE CAN BE WEDDED, BUT WE ARE WILLING TO CONSIDER THAT. WE ENDORSE USE OF CLUB SITE FOR FIVE STAFF HOUSING UNITS, BUT THIS WILL TAKE TIME TO BUDGET, DESIGN AND CONSTRUCT. IT WOULD BE IMPOSSIBLE, AT THIS TIME, TO ESTABLISH WITH DSD A FIRM COST ON SUCH A PROJECT. DEPARTMENT, TOO, IS RELUCTANT TO SELL BABITS SETANY 1.

(C) OUR GENERAL COMMENTS ON YOUR 3973 FUTURE PROPERTY AND SERVICE REQUIREMENTS ARE THESE: (1) BECAUSE BOTH OUR OWN AND GOH FUNDING AND CONSTRUCTION PROCESSES ARE SLOW, WE SHOULD MINIMIZE (BUT NOT ELIMINATE) CONSTRUCTION PROPOSALS; (2) BECAUSE WE OURSELVES DO NOT HAVE A FIRM, SPECIFIC LIST OF PROPERTY AND CONSTRUCTION REQUIREMENTS, AND, AS A RESULT, CANNOT HOPE TO REACH AGREEMENT WITH DSD ON THE LIMITED OFFICIAL USE

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COSTS OF OUR REQUIREMENTS, IT WOULD SEEM IMPOSSIBLE TO  
REACH AGREEMENT WITH THE GOH ON ITS PROVISION OF OUR

REQUIREMENTS UNDER OR AT SAME TIME AS THE PROPERTY  
TRANSFER AGREEMENT; AND (3), THEREFORE, WE SUGGEST THE  
NEXT ROUND OF NEGOTIATIONS BE LIMITED TO THE TRANSFER OF  
OUR UNUSED, UNNEEDED PROPERTIES TO GOH IN RETURN FOR  
PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION. RECOGNIZING  
THAT THIS APPROACH HAS PROBLEMS, TOO, WE WILL WELCOME YOUR  
FRANK COMMENTS.

8. DECONTROLLED FOLLOWING JUNE 30, 1978. CHRISTOPHER

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